



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

NOV 16 2009

Memorandum

To: Mary L. Kendall
Acting Inspector General

Jeff Norris
KPMG LLP
2001 M Street, NW
Washington, DC 20036

From: Rhea Suh 
Assistant Secretary – Policy, Management and Budget
and Chief Financial Officer

Subject: Management's Response to Draft Independent Auditors' Report on the
Department of the Interior Financial Statements for Fiscal Years 2009 and 2008
(Assignment No. X-IN-MOA-0018-2009)

The Department of the Interior has reviewed the draft report prepared by KPMG LLP and provides its response to the findings and recommendations. We are pleased that the result of the audit is an unqualified opinion on the Department Consolidated Financial Statements. We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management in Interior.

There were no findings in FY 2009 that were identified as Material Weaknesses. The FY 2008 Material Weakness on Controls over Unfilled Customer Orders was resolved.

The following significant deficiencies were identified:

A. Information Technology Controls over Financial Management Systems

Management concurs. During FY 2009, Interior continued to improve its information technology controls including policies and guidance and will continue to enhance application and general controls over financial management systems during FY 2010. A specific focus on the areas of the entity-wide security program, access controls, configuration management, and service continuity will occur in FY 2010. We are constantly striving to implement improvements and strengthen the related programmatic aspects of the IT security program (including awareness training) and will continue to review all aspects of the IT program for refinement, as appropriate.

B. Controls over Property

Management concurs. Interior's management recognizes the need to continuously evaluate and improve the methodology utilized for all facets of project and property recognition, especially with internal use software. Interior will review and enhance the policy and procedures for recording internal use software. A quarterly system of review will be implemented on larger software projects. We will conduct a review of the training material on capitalization decisions, recording property additions, disposals, and transfers. The core financial systems calculation of depreciation will be evaluated. These improvements will include the controls over individual projects, communication with internal and external stakeholders, consistent cost structures, as well as the periodic inventory and certification control procedures.

C. Controls over Undelivered Orders

Management concurs. Interior agrees that continuing improvement of the quarterly review and certification of the undelivered orders (UDO) balances must be sustained. Both Interior and the components will work to improve the effectiveness of the review and certification process. The UDO certification will be included in the quarterly operational assessment process. The four components identified in the audit will prepare corrective action plans to ensure proper certification of undelivered orders. Interior will revise guidance to address the problems with "recoveries" and will evaluate alternatives to more accurately capture period of performance data in the core financial systems. Management is committed to bringing each component together to address these concerns in an integrated and consistent manner.

D. Controls over Estimated Liabilities

Management concurs. Interior will continue to enhance the core financial systems to improve component procedures to estimate and verify accruals, including a review of Department and component policies and procedures on the process. Management will work to establish a standardized subsequent activity report to verify accruals. A review of training and methodologies will be conducted. A supervisory review will be added to the component quarterly financial reporting assessment.

E. Grant Monitoring Controls

Management concurs. Interior will continue to work with the components to ensure that all necessary reports are obtained and that management decisions on audit findings are issued in a timely and compliant manner. Management will continue to improve procedures to determine if any modifications would yield a more timely and effective treatment. Interior will develop a monitoring system for a complete listing of grant awards, obtaining single audit reports and management decisions on audit findings.

F. Controls over Fiduciary Activity (formerly Controls over Indian Trust Funds)

Management does not concur. Upon careful consideration of the significant corrective action progress, procedures, and internal controls that have been implemented, Interior continues to believe that the efforts to address the deficiencies in controls related to Indian Trust Funds are substantially complete and provide reliable information. This position is based on the results of extensive internal control testing which revealed that controls are in place and operating effectively; therefore, there is no adverse impact on the current financial internal control environment. We believe that there is a high degree of accuracy in the Trust Fund account balances, that the accounting and asset management resource systems are reliable, and that monies are being properly and timely accounted for.

The concerns regarding historical differences do not imply that a current control deficiency exists. Current system design and operations allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Therefore, these four historical differences do not fit the description of a current control deficiency and should not continue as a barrier to recognition of the improved control environment. The auditors' report did not contain findings suggesting current operational control deficiencies.

The following instances of noncompliance with laws, regulations, contracts, and grant agreements identified by the auditors were:

G. Single Audit Act Amendments of 1996

Management concurs. During FY 2010, Interior will work to obtain Single Audit, Financial Status, Grant Performance, and Annual Reports in a timely manner. Enhancements will continue to be made to the business process for complying with the Single Audit Act.

H. Prompt Payment Act

Management concurs. During FY 2010, Interior will work to modify the core financial systems to calculate prompt pay interest correctly and to establish an appropriate level of review.

In closing, corrective action plans will be established for each of these findings, which will be monitored/tracked through completion. Interior is committed to improving these and all other elements of financial management.